

**Blue Ribbon Commission
On Governmental Organization
And Efficiency Interim Report:
Executive Branch Organization**

**Presented to Governor Fletcher
December 12, 2003**

Blue Ribbon Commission Mission & Membership

Mission

To propose to Governor Fletcher a governmental structure for the executive branch that will serve as the framework to infuse efficiency into state government.

Membership

Bruce Lunsford, Chair

Honorable Richard Murgatroyd

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December 12, 2003

**Governor Ernie Fletcher
700 Capitol Avenue
Suite 100
Frankfort, KY 40601**

Dear Governor Fletcher,

As chairman of the Blue Ribbon Commission on Governmental Efficiency and Organization, I respectfully submit an interim report which contains the Commission's proposal for the organization of the executive branch.

We believe that this proposal conforms to the mission you charged us with at our first meeting:

To propose to Governor Fletcher a governmental structure for the executive branch that will serve as the framework to infuse efficiency into state government.

The submission of this proposal was possible through the dedication and thoughtfulness of the members of the Blue Ribbon Commission. I believe that the quality of this report reflects the extraordinary caliber of people that you have selected to serve.

Although this is only the first component of fulfilling the mission that you have assigned us, I believe that this is a vitally important component. It will serve as a framework through which additional efficiency initiatives will permeate the executive branch.

We look forward to continuing as a body assembled to advise your administration on further recommendations to bring greater efficiency to state government.

Respectfully,

A handwritten signature in dark ink, appearing to read "B. Lunsford", written in a cursive style.

**Bruce Lunsford, Chairman
Blue Ribbon Commission on
Governmental Efficiency and Organization**

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Executive Branch

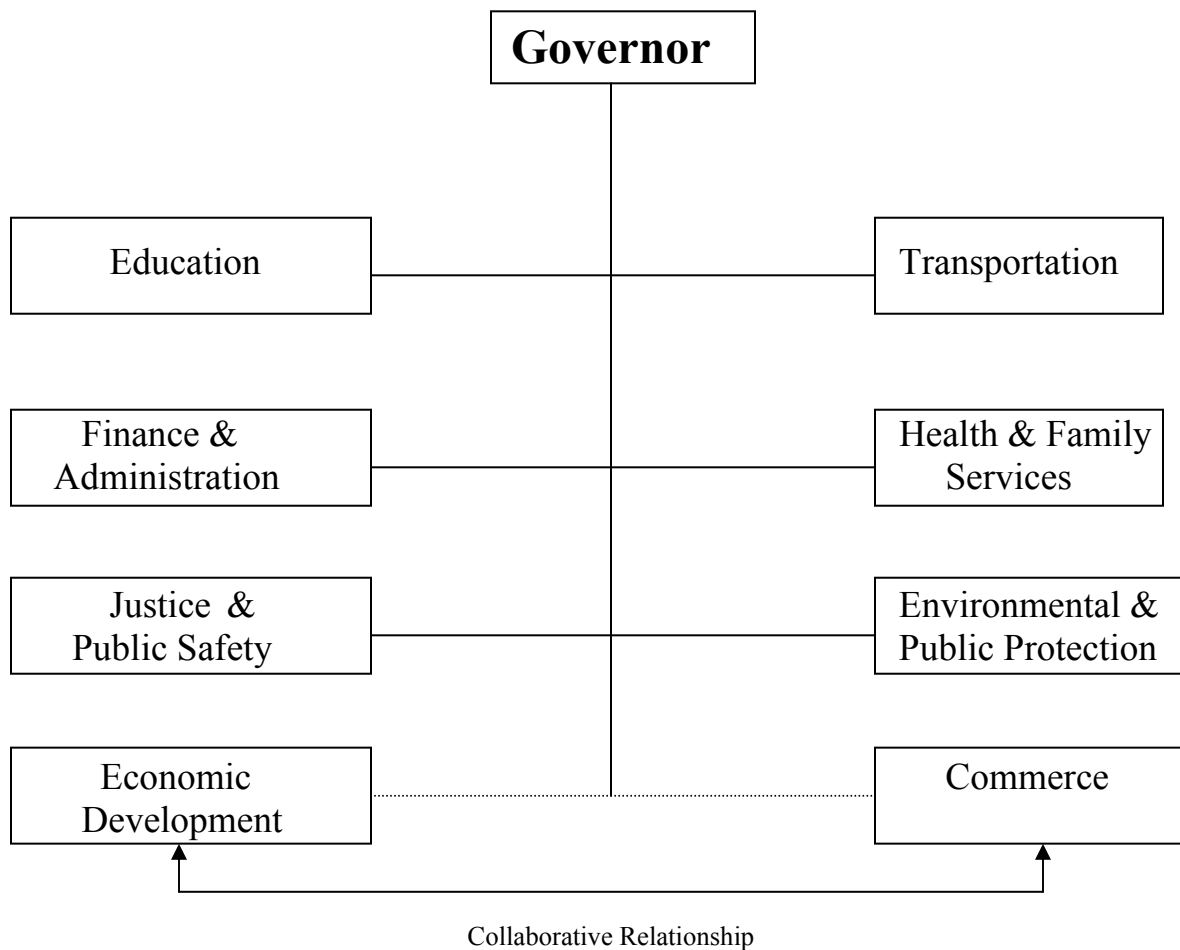


Figure 1: The Executive Branch

The Governor's Office

Driven by the politics of organizational positioning, recent administrations have seen fit to centralize certain functions of state government directly within the Office of the Governor. This may have been done because certain constituencies felt that their interests and policy recommendations would otherwise go unnoticed by the executive unless those functions were placed within his or her office. Also, recent Governors have chosen to show their support for a particular set of issues by placing administrative agencies within their office.

But faced with limited time, the extensive demands of being the chief executive of the state and an abundance of agencies directly reporting to the Office, a Governor may find

that he or she cannot adequately focus on the initiatives relative to the administrative agencies within their office.

In light of this reality it is reasonable to ask: does policy making within these agencies actually suffer from being in an overcrowded office? If so, are there more effective organizational arrangements that will actually lead to more effective policymaking and policy implementation?

We believe that the answer to both questions is “Yes.”

We believe that the most effective managerial strategy that the new Governor can employ is to decentralize the organizational authority from the Governor’s Office, place those functions under the direction of competent management in a more appropriate area of government, have the Governor send clear signals of policy priorities to senior managers, and hold management accountable for administering and implementing instructions from the executive.

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

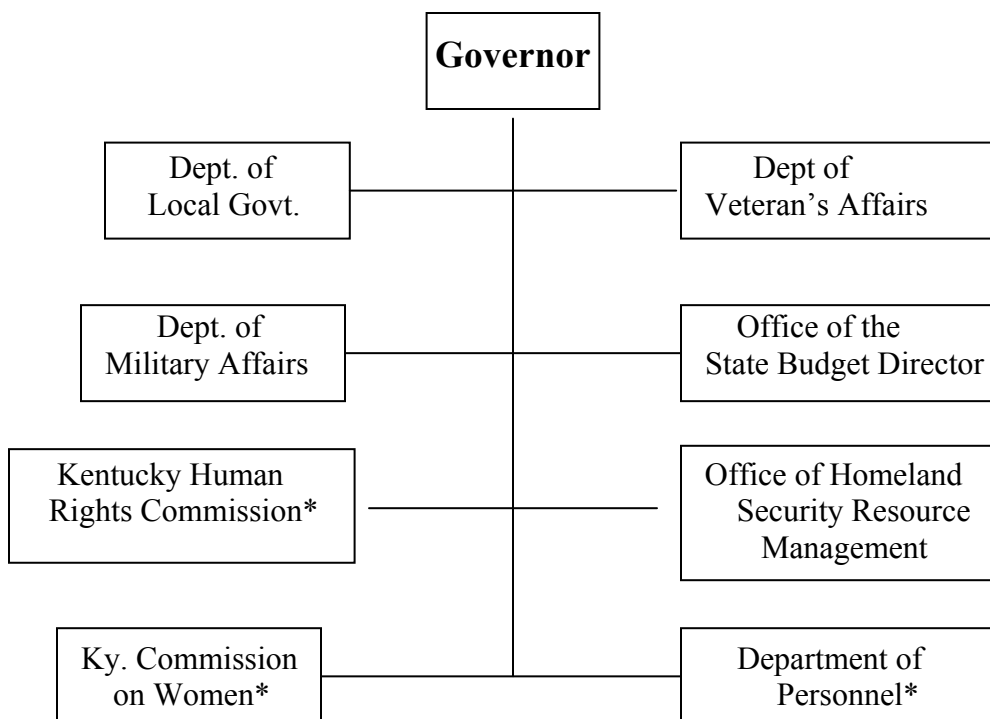
Recommendation 1: Maintain the Department of Local Government, the Office of the State Budget Director, the Department of Military Affairs, and the Department of Veteran’s Affairs within the Office of the Governor.

Recommendation 2: Maintain the Commission on Women and the Kentucky Human Rights Commission within the Governor’s Office with them reporting to the Secretary of the Cabinet.

Recommendation 3: Create an Office of Homeland Security Resource Management within Office of the Governor as the primary mechanism to allocate Homeland Security funding from the federal government.

Recommendation 4: Place the Personnel Cabinet within the Office of the Governor and rename it the Department for Personnel. Locate the Personnel Department within the Office of the Governor and have it report to the Secretary of the Cabinet.

Office of the Governor



* Reports to the Secretary of the Cabinet

Figure 2: Office of the Governor

The Education Cabinet

The largest and one of the most important “services” provided by state government in Kentucky is the education of its citizens. In the 2002-2004 biennium, education related appropriations—primary, secondary and post-secondary—encompassed 58.9% of General Fund expenditures. The rationale behind the significant investment in education is clear: quality education translates into greater prosperity. According to the *National Center for Education Statistics*, as men and women achieve higher levels of academic credentials—high school diplomas, GEDs, post-secondary degrees—they earn significantly higher wages and lead healthier lifestyles.¹

In recent years, there has been considerable discussion about the “education pipeline,” which, according to the *National Information Center for Higher Education Policymaking and Analysis*, “can be conceived in terms of a series of successive transitions” through

¹ See “The Condition of Education 2002: Annual Earnings of Young Adults” and “The Condition of Education 2002: Education and Health” National Center for Education Statistics. (www.nces.ed.gov)

the educational process.² The normative implication of this conceptual model is that policy makers *should* implement policies to create seamless transitions from one level of education to another.

Furthermore, policies can be designed to plug the “leaks” within the education pipeline. According to the *National Governors Association* (NGA), “K-12 and higher education systems are largely divorced from one another.”³ To address this, the NGA recommended that states “create more opportunities for integrative legislative policymaking, (which) will be easier to accomplish and more effective in their implementation if there is an organizational base for K-16 policymaking and oversight.”⁴

Kentucky has begun the process of better integrating the educational services throughout the state. For example, the P-16 Council advises “the Department of Education and the Council for Post-Secondary Education on the preparation and professional development of teachers, the alignment of competency standards, and the elimination of barriers impeding student transition from preschool to the baccalaureate.”⁵ As the language implies, the integrative effort to date represents the creation of an advisory arrangement with only consultative authority as opposed to the formation of a formal organizational structure that binds agencies, departments and other entities together through a common mission and vision.

Additionally, the P-16 Council’s formal structure implies that education ends after college. Although the typical education pipeline model’s point of termination is “entering the workforce,” functional observations of our changing world reveal that education has become a lifetime endeavor. As the underlying foundations of the United States’ economy continue to shift from capital and labor intensive production to knowledge-based services and industries, workers are finding it advantageous to learn new and/or upgrade existing skill sets. As a result, it is logical to extend the “educational pipeline” model to include lifetime learning and, therefore, encourage policy makers to design policies and organizations that fully integrate the whole spectrum of education and training services provided by state government.

Under the current state government organization, the responsibility for educating and training Kentuckians falls under a variety of organizational locations: the Governor’s Office, the Education, Arts and Humanities Cabinet and the Cabinet for Workforce Development. We believe that a better integration of Kentucky’s education and training programs is an achievable goal through greater streamlining and organizational incorporation.

² Ewell, Peter; Jones, Dennis; Kelly, Patrick. “Conceptualizing and Researching the Educational Pipeline.” *National Information Center for Higher Education Policymaking and Analysis*. (www.higheredinfo.org)

³ See “Ready for Tomorrow: Helping All Students Achieve Secondary and Post-Secondary Success.” National Governor’s Association. (www.nga.org)

⁴ Ibid.

⁵ See Council for Post Secondary Education. (www.cpe.state.ky.us)

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 5: Enhance Kentucky's commitment to building a lifetime educational pipeline through a coordinated organizational structure that encompasses those departments, agencies and entities dedicated to the mission of educating and training Kentuckians.

Recommendation 6: Organize the Council for Post-Secondary Education within the Education Cabinet.

Recommendation 7: Organize the Education Professional Standards Board within the Education Cabinet.

Recommendation 8: Place the Workforce Development Cabinet within the Education Cabinet and rename it the Department for Workforce Investment.

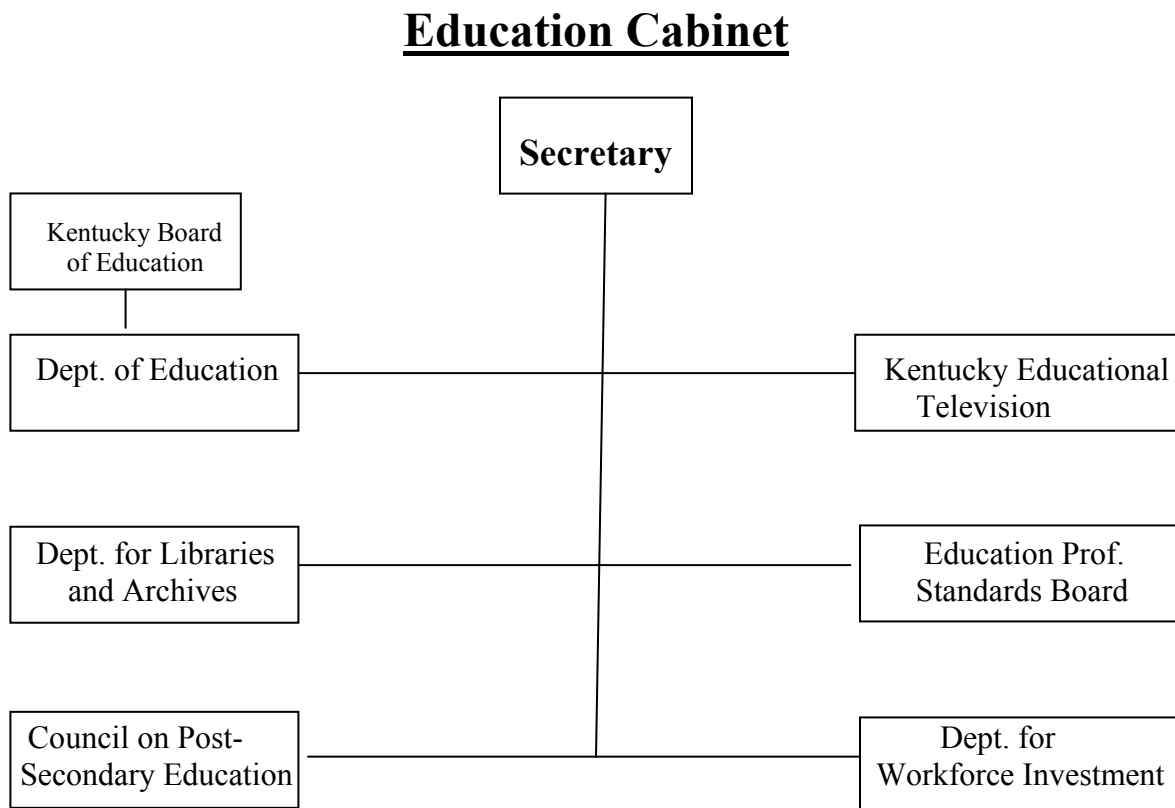


Figure 3: Education Cabinet

Office of the Secretary contains: Office of Operations and Development, Governor's Scholars Program, Martin Luther King Jr. Commission, Kentucky Environmental Education Council, Kentucky Commission on the Deaf and Hard of Hearing.

Cabinet for Finance & Administration

For many years, there has been a compelling discussion related to the question of whether or not government can be run like a business. It is outside of this Commission's expertise and mission to attempt to answer such a question. However, practical observations suggest that the functions of government and the mechanisms that encourage popular participation largely limit a government's ability to operate under the same principles as a business.

However, that is not to say that corporate organizational design does not offer direction as to how government could be structured to pursue efficient administrative outcomes. The current Finance and Administration Cabinet is responsible for a majority of the "business-like" functions of state government. We believe that there is potential for even greater integration.

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 9: Integrate the Revenue Cabinet within the Finance and Administration Cabinet.

Recommendation 10: Attach the Kentucky Teacher's Retirement System to Finance and Administration for administrative purposes.

Recommendation 11: Organize the Governor's Office of Technology within the Finance & Administration Cabinet and rename it the Office of the Chief Information Officer.

Finance & Administration

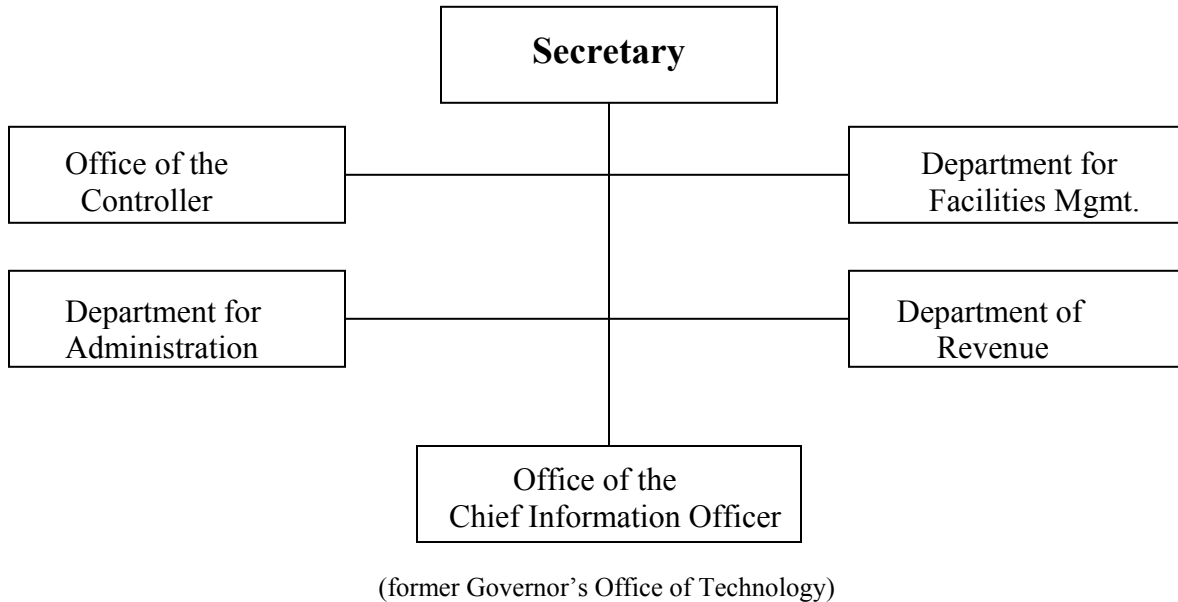


Figure 4: Finance and Administration Cabinet

Corporate and Administrative Bodies and Instrumentalities attached to FAC:

County Officials Compensation Board
 Commonwealth Credit Union
 Deferred Compensation System
 KY Employees Retirement System
 KY Housing Corporation
 Local Correctional Facilities Commission
 State Investment Commission
 State Property and Building Commission
 Turnpike Authority of Kentucky
 KY Teachers' Retirement System

Entities attached to FAC for administration:

Capital Development Committee
 Central State Hospital Recovery Authority
 Eastern KY Exposition Center Corporation
 Governmental Services Center
 Historic Properties Advisory Commission
 Higher Education Assistance Authority
 Private Activity Bond Allocation
 Commission
 KY River Authority
 KY Tobacco Settlement Trust Corporation
 Personnel Steering Committee
 Red Fox Tri-County Cooperative
 School Facilities Construction Commission
 Kentucky Infrastructure Authority

Office of the Secretary Contains: Division of Administrative Policy and Audit, Office of EEO & Contract Compliance, Office of Technology Services, Customer Resource Center, Office of Capital Plaza Operations, Office of Financial Management, Office of Legal & Legislative Services, Office of Management and Budget

Cabinet for Health and Family Services

In 1995, the former Human Resources Cabinet was split into the Cabinet for Health Services and the Cabinet for Families and Children. The impetus behind the split was a perception that the Human Resources Cabinet was too large to manage.

But effective management of an organization, no matter how large or small, is largely a function of personnel. A person with strong managerial skills is capable of managing large organizations if appropriate, efficient management structures are put into place.

Because organizational efficiency is largely a function of organizational structure, misalignment in areas of government that should be aligned creates an inefficient administration of services.

For example, the current Department for Disability Determination Services (DDS) within the current Cabinet for Families and Children is responsible for making disability (Supplemental Security Income or SSI) determinations for residents of Kentucky. Persons determined to be eligible for SSI in Kentucky automatically qualify for health care under Medicaid. The Medicaid program is currently administered by the Cabinet for Health Services.

According to a report from the Auditor of Public Accounts, “the DDS (has) not made detecting fraud and abuse (of qualifying SSI recipients) a priority.”⁶ Consequently, it stands to reason that a number of current Medicaid beneficiaries are abusing the system. This speculation is particularly disturbing in light of the significant hardships placed upon legitimate Medicaid recipients over the last couple of years.

We believe that under strong management a more effective and efficient implementation of social services will be achievable if those services are organized under one Cabinet of state government.

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 12: Merge the current Cabinet for Health Services and Cabinet for Families and Children to form the Cabinet for Health & Family Services.

Recommendation 13: Place the Office of Child Abuse & Domestic Violence Services within the Cabinet for Health and Family Services.

⁶ “SSI Application Fraud Should be Improved.” Auditor of Public Accounts. Oct. 2003.
www.kyauditor.net.

Health & Family Services

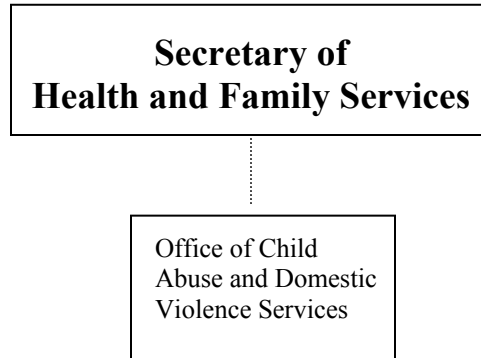


Figure 5: Cabinet for Health and Family Services

The Transportation Cabinet

It would certainly be an understatement to say the Transportation Cabinet is a very large organization. Its 6000 employees and \$1.7 billion budget makes it larger than almost every private employer in Kentucky.

It would also be an understatement to say that the Transportation Cabinet has been at the center of controversy in recent years. We believe that this has resulted from mismanagement and the penetration of politics into the organization. Our observations, though, indicate that whatever dysfunctions exist have resulted more from the shortcomings of certain individuals than organizational form.

But that is not to say that there is no need for organizational refinement. The enormity of the Transportation Cabinet combined with the requisite technical expertise inherent to infrastructure investment calls for the top level appointee—the Secretary—to have both strong managerial skills and a background in engineering and construction. Typically the identification of an individual that holds both qualifications has brought in people that have been connected to the transportation industry for many years. Consequently, the potential for conflicts of interest and the penetration of political and personal favoritism is not only likely, but as we all have observed, has either consumed or affected nearly every function and operation of the Cabinet.

To address these issues, it only makes sense to separate the responsibilities of the executive of the Cabinet.

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 14: Define the Secretary of Transportation to be the chief managerial position within the Transportation Cabinet.

Recommendation 15: Extract the duties of the Commissioner of Highways from the Secretary of Transportation and define that position to be the principal technical expert that oversees the Department of Highways.

Transportation Cabinet

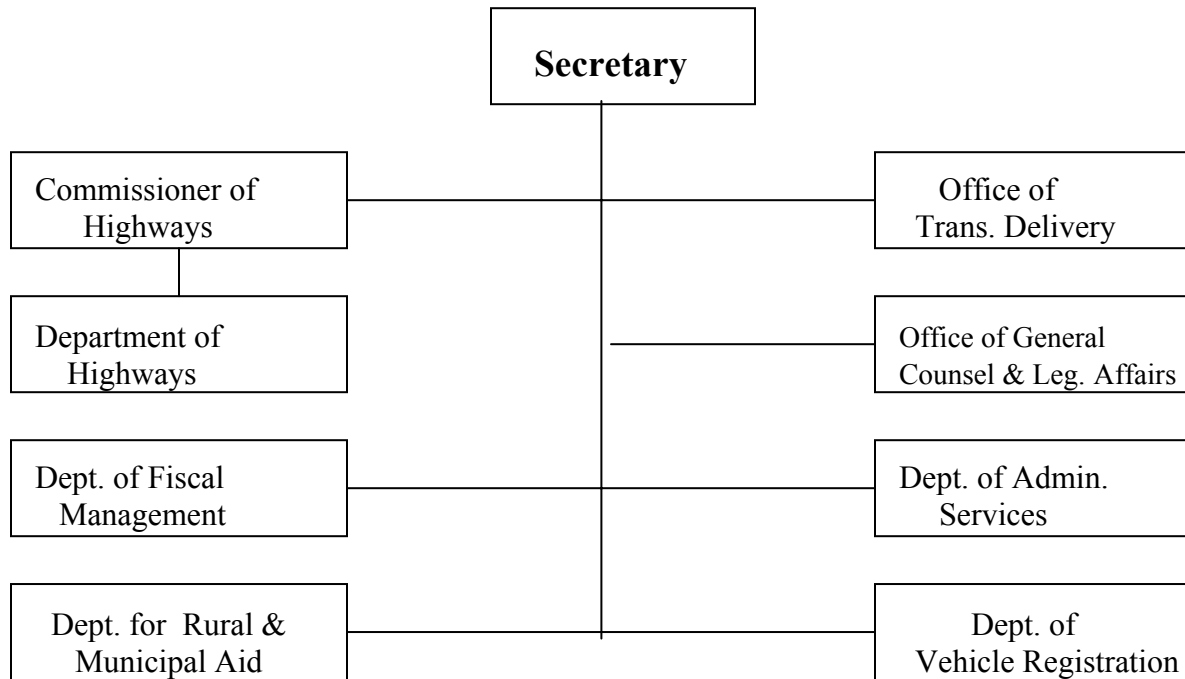


Figure 6: Transportation Cabinet

A Vision for “A New Commerce and Development” in Kentucky

For the last twenty years, Kentucky’s economic development strategy has primarily—if not exclusively—been focused upon the recruitment of industry to Kentucky. As a result, Kentucky has a very strong manufacturing base. According to the Bureau of Economic Analysis, a full twenty-five percent of Kentucky’s gross state product is attributable to the manufacturing industry within the state. We believe that every effort must be made to maintain and expand Kentucky’s manufacturing sector.

At the same time, it is vital that the state diversify its economy. The Governor has laid out a vision of building a knowledge economy in Kentucky through the construction of a federal research lab and by supporting the Office of the New Economy and the Bucks for Brains program. We recommend that the Governor aggressively convey his support for new economy initiatives and a belief that those initiatives must be fully integrated into Kentucky’s economic development strategy

Tourism is one area of untapped potential in Kentucky’s economy. According to the Bureau of Economic Analysis, tourism currently makes up less than 1% of Kentucky’s

gross state product.⁷ While Kentucky's tourism industry grew by eighty-three percent from 1991 to 2001, Tennessee's tourism industry grew by 105% and Indiana's grew by 202%. What do those states have to offer that Kentucky does not? Greater hospitality? More historical or cultural attractions? Better ecological destinations? More dynamic urban attractions?

While every state is, to a degree, unique, these other states have simply done a better job at marketing their assets. We believe that Kentucky needs to define a vision of itself—one that conveys our progressiveness, yet is grounded in our culture and history—and market that vision throughout the world. Kentucky should draw from all its assets in economic development, tourism and within our cultural heritage. State government should develop collaborative relationships between all agencies tasked with growing prosperity. Collaboration, as opposed to bureaucratic competition, must become the defining feature of the Fletcher administration's mission to spread prosperity to every corner of the state. Such an effort could become the center to building "New Commerce and Development" in the Commonwealth.

This "New Commerce and Development" vision can serve as a focal point for growing Kentucky's tourism industry. An innovative integration of tourism, the arts and humanities, and Kentucky's rich history could create a virtuous cycle in which tourism drives customers to our artisans and historic districts and our history and arts become a central draw for tourists. Tourists' expenditures can be maximized by creative packaging that causes tourists to think beyond visiting the state for a specific event. Instead, the state's tourism efforts should focus on promoting Kentucky as a vacation destination for horse racing, auto racing, world-class shopping, dining and college sports, lakes, caves, forests, rolling and mountainous landscapes, and historic small towns offering their arts and heritage.

The vision of "New Commerce and Development" can be a significant contributor to building a knowledge-based economy in Kentucky. As America's traditional urban centers grow more congested with urban sprawl and traffic, quality of life is becoming an important consideration for professionals and entrepreneurs looking to locate elsewhere or start a small business. Kentucky can promote the state as a home for professionals that want to live in and around dynamic urban settings while being within a reasonable driving distance to natural havens like the Red River Gorge, Mammoth Caves National Park, and the Land between the Lakes.

Finally, the vision of "New Commerce and Development" within Kentucky will strengthen the hands of those tasked with recruiting Kentucky's industrial base. It will project a carefully crafted image of Kentucky to the economic centers of the world and let them know that Kentucky is truly "open for business." The collaboration between Kentucky's economic development initiatives with our tourism and cultural efforts will allow senior management to market the state in ways never before possible.

⁷ These figures related to "tourism" were derived from data covering two major components of tourism: "hotels and other lodging places" and "amusement and recreation services." This is a limited definition of tourism but one utilized for comparative analysis. See the Bureau of Economic Analysis. (www.bea.gov)

To achieve this vision of a New Commerce for Kentucky, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 16: Create a Cabinet for Commerce that includes Kentucky’s tourism, arts, history and fish & wildlife functions. Organize the Kentucky Commission on Small Business Advocacy, the Kentucky Appalachian Commission and the Kentucky Coal Council and Office of Coal Marketing and Export within the Commerce Cabinet.

Recommendation 17: Rename the Kentucky Commission on Military Affairs to the Kentucky Commission on Military Asset Development and place it within the Cabinet for Economic Development. Task the commission with preserving and expanding Kentucky’s military assets.

Recommendation 18: Design structures—whether formal or informal—to ensure that the Secretary of Economic Development and the Secretary of Commerce are working collaboratively to grow prosperity in Kentucky.

Cabinet for Economic Development

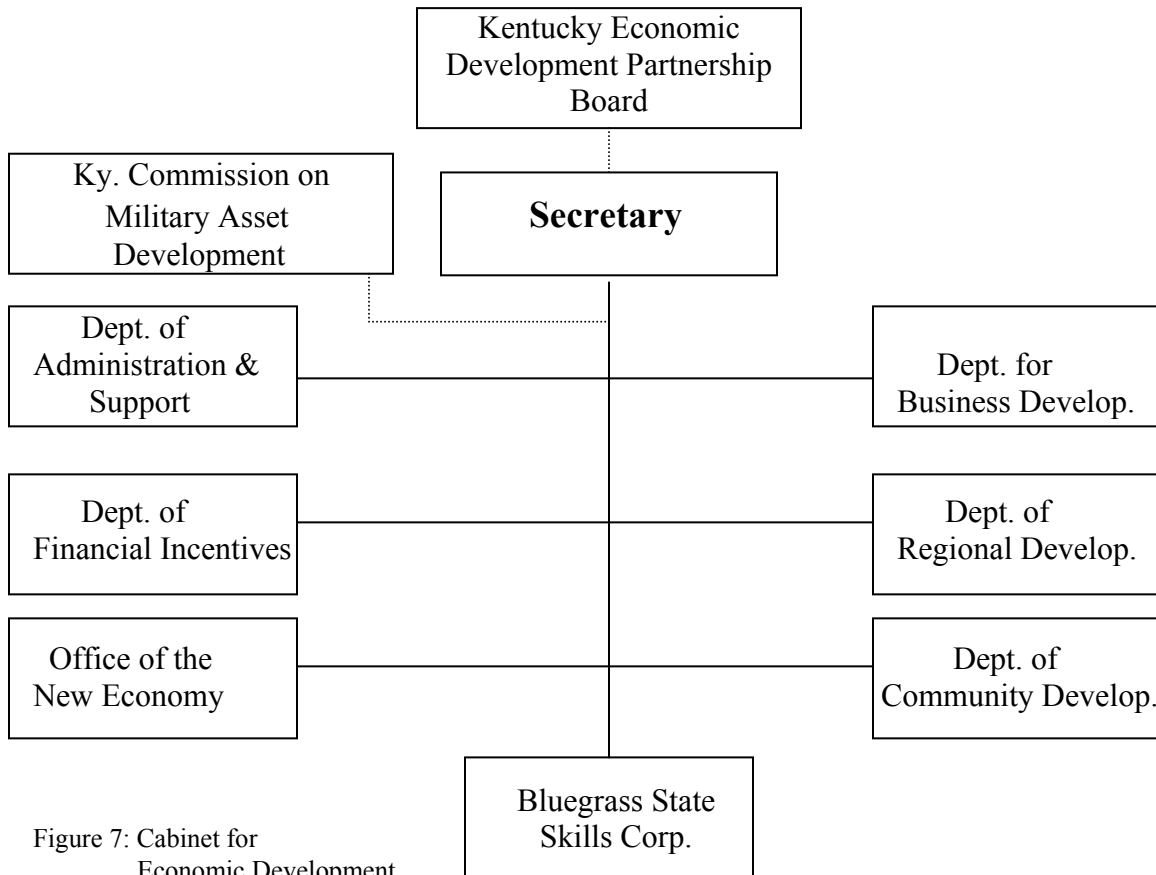


Figure 7: Cabinet for Economic Development

Commerce Cabinet

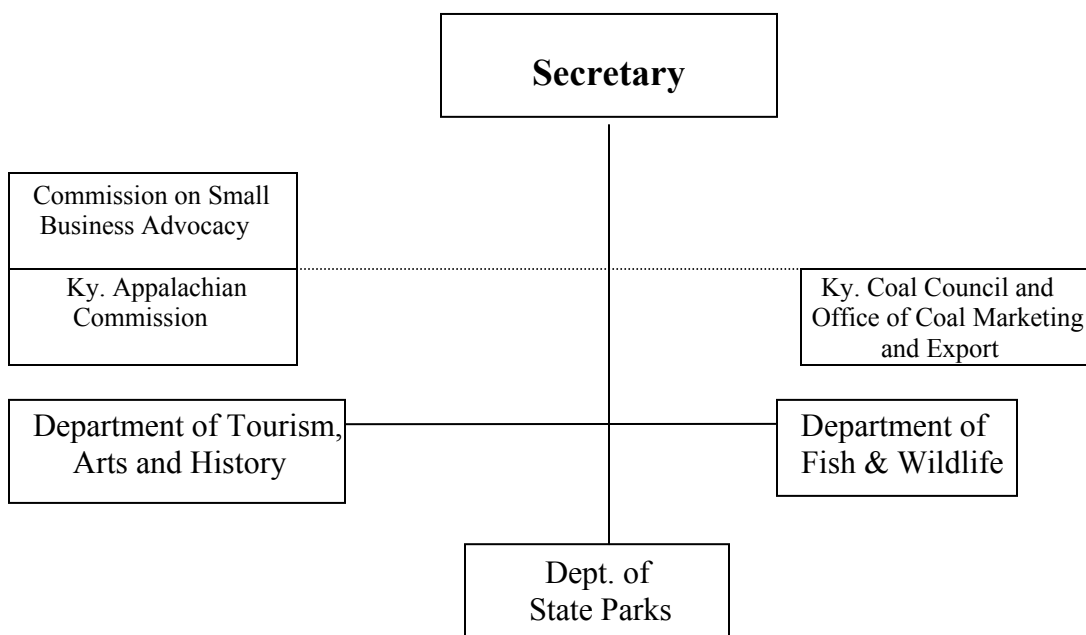


Figure 8: Commerce Cabinet

The Department of Tourism, Arts and History contains: Kentucky State Fair Board, Kentucky Center, the Kentucky Arts Council, the Kentucky Heritage Council, the Kentucky Historical Society, the Kentucky Craft Marketing Program and the Kentucky Horse Park.

Cabinet for Environmental & Public Protection

Our state government has the responsibility—and honorable duty—of ensuring that its citizens, consumers, workers, taxpayers, ratepayers, natural resources, and environment receive the protection they are due. The majority of these protective obligations fall within three current cabinets: Public Protection and Regulation, Labor, and Natural Resources and Environmental Protection. The Public Protection and Regulation Cabinet is dedicated to promoting “a secure environment, a just society and a strong economy by protecting the public through efficient and professional regulation, advocacy education and service while balancing public and private sector interests.”⁸ The Labor Cabinet’s mission is “to administer Kentucky’s workplace standards and workers’ compensation laws through education, mediation, adjudication, and enforcement in order to promote safe, healthful, and quality working environments for employees and employers.”⁹

⁸ See Public Protection and Regulation Cabinet mission statement. (<http://ppr.ky.gov>)

⁹ See KY Labor Cabinet mission statement. (www.kylabor.net) The mission statement continues, “to foster cooperative relationships between labor and management; and to ensure fair compensation.”

Finally, the Natural Resources and Environmental Protection Cabinet is committed to “(protecting and enhancing) Kentucky's natural resources by providing environmental leadership and expertise; shaping a vision for Kentucky's ecological future; serving as a bridge linking Kentucky's citizens, government and businesses.”¹⁰

With the general mission of these cabinets already aligned, it stands to reason that they could be integrated into a single cabinet dedicated to the protection of Kentucky's citizens and precious resources.

Furthermore, we believe that long-term administrative efficiencies can be gained through a merger of administrative functions among existing Cabinets. A significant portion of each Cabinet's budget—Public Protection and Regulation (26%), Labor (16%) and Natural Resources and Environmental Protection (13%)—can be categorized as either “operating expenses” or “general administration and support.”¹¹ Therefore, a combined management structure would have the potential to save the state a significant sum of money.

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 19: Combine the current Public Protection and Regulation Cabinet, Labor Cabinet, and Natural Resources and Environmental Protection Cabinet to form the Cabinet for Environmental & Public Protection.

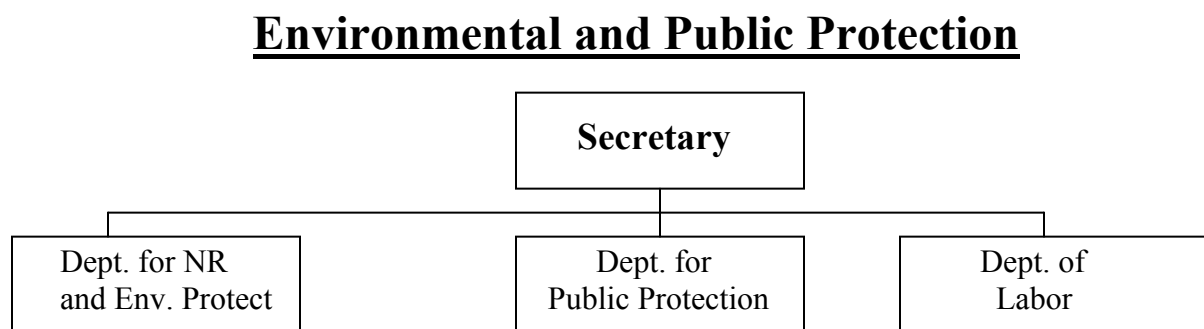


Figure 9: Environmental and Public Protection Cabinet

¹⁰ See Kentucky Natural Resources and Environmental Protection Cabinet mission statement. (www.environment.ky.gov) The mission statement continues, “and monitoring environmental trends and anticipating needs.”

¹¹ The proportion of expenditures dedicated to “operating expenses” for the Public Protection and Regulation Cabinet was based upon all fund source expenditures. The proportion of “general administration and support” for the Labor and Natural Resources and Environmental Protection Cabinets was based upon General Fund expenditures only. See *2002-2004 Budget of the Commonwealth*. Office of the State Budget Director. (www.osbd.state.ky.us)

Justice and Public Safety

The current Justice Cabinet's organizational structure is well aligned with its general mission. However, that structure was designed in a pre-September 11th context in which the paramount concerns of the day did not include the threat of terrorism and the need to provide homeland security.

Kentucky's current homeland security apparatus—the Office for Security Coordination and the Kentucky Division of Emergency Management—is currently located within the Department of Military Affairs. The rationale behind this organizational configuration is justifiable under the assumption that Kentucky's homeland security initiatives will be most effective if they are integrated with the Kentucky Army and Air National Guard. In recent months, however, it has become apparent that the National Guard is becoming an important component of overseas deployments. This reality complicates strategic homeland security policy planning and implementation.

Furthermore, on the state level, the National Guard typically serves a response function—e.g. providing aid when natural disasters occur—as opposed to being proactive in seeking to preempt terrorist acts. The proactive front-line of homeland security is, in actuality, state and local law enforcement and associated emergency responders. Consequently, we believe that Kentucky's homeland security initiatives should be integrated with state law enforcement and emergency management agencies.

Recently, Governor Fletcher appointed Lt. Governor Steve Pence to be the Secretary of the Justice Cabinet. At the announcement of his appointment, Lt. Governor Pence stated that his strategy for combating drug abuse in Kentucky is a "multifaceted approach" that includes education, demand reduction and rehabilitation.¹² Consequently, the proper organizational apparatus in dealing with Kentucky's growing drug problem should certainly be found within the Justice Cabinet.

Therefore, the Blue Ribbon Commission on State Government Organization and Efficiency recommends:

Recommendation 20: Rename the current Justice Cabinet to the Cabinet for Justice and Public Safety.

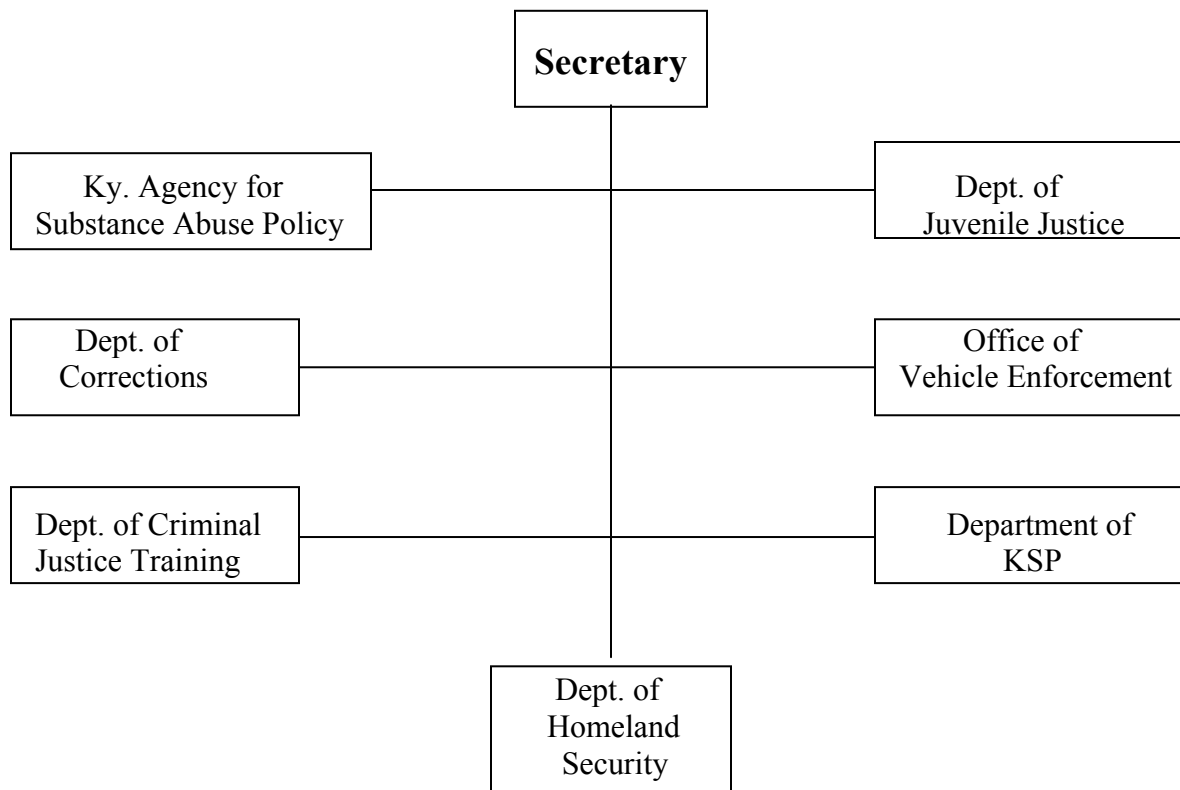
Recommendation 21: Create a Department of Homeland Security (DHS) within the Justice Cabinet containing the Office for Security Coordination and the Kentucky Community Response Board. Task this Department to serve as the primary strategic planning and coordinating body for Kentucky's homeland security policy implementation. Design the appropriate communication channels to ensure that the DHS is coordinating with the Department of Military Affairs and the Office of Homeland Security Resource Management.

¹² "Pence Pledges to Wage War on Illegal Drugs." *Courier-Journal*. Dec. 4, 2003.

Recommendation 22: Place the Kentucky Agency for Substance Abuse Policy within the Justice Cabinet.

Recommendation 23: Create an Office of Vehicle Enforcement, comprised of the Division of Vehicle Enforcement from the Transportation Cabinet.

Justice & Public Safety



Office of the Secretary contains: Administrative Services Branch, Internal Investigations Branch, the Parole Board, Division of State Medical Examiner and the Kentucky Criminal Justice Council.

Figure 10: Cabinet for Justice and Public Safety